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C O N F I D E N T I A L SECTION 01 OF 03 BOGOTA 002449

SIPDIS

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TAGS: PREL PGOV ECON ETRD VZ CO
SUBJECT: GOC CALM AS TENSIONS RISE WITH VENEZUELA, BUT
ECONOMIC UNCERTAINTY REMAINS

REF: A. BOGOTA 2409
¶B. CARACAS 983
¶C. BOGOTA 1431

Classified By: Charge d'Affaires Brian A. Nichols
Reasons 1.4 (b and d)

SUMMARY

¶1. (C) The GOC is trying to keep an even keel in its latest bilateral dispute with Venezuela, hoping measured responses can lower the temperature and win international support. GOC officials note the GOC's calm responses to Chavez's provocative rhetoric position the GOC to come out ahead, but they concede Chavez's unpredictability worries them. Government and industry actors alike are particularly concerned about the economic fallout, especially in the face of already-declining Venezuela trade. End Summary

GOC SEES OPPORTUNITY, THREAT IN TENSIONS

¶2. (C) Colombian officials tell us the Government of Colombia (GOC) is trying to remain calm and take advantage of roiled regional relations by giving measured responses to President Chavez's recent accusations and actions against Colombia. (NOTE: Venezuela on July 28 recalled its Ambassador to Colombia and other senior diplomats in Bogota to protest GOC accusations that the Bolivarian Republic of Venezuela (BRV) supplied Swedish-made missiles to the Revolutionary Armed Forces of Colombia (FARC) - see reftel A. Chavez and other BRV officials had earlier charged that the pending US-Colombian Defense Cooperation Agreement (DCA), along with the GOC decision to let the US use Colombian bases for counternarcotics flights, represented threats to the BRV. End Note). Presidential Communications Director Jorge Mario Eastman told us on July 24 that President Uribe hoped to avoid an escalation of rhetoric with Chavez by refusing to engage in a tit-for-tat exchange of verbal barbs.

¶3. (C) Eastman noted Uribe had stayed silent while Chavez "ranted himself into a frenzy" immediately after the July 15 base use agreement announcement. Uribe and Foreign Minister Jaime Bermudez waited until the next week to respond, he said, with Uribe denying any aggressive intent (and avoiding direct mention of Venezuela) and Bermudez emphasizing Colombia's sovereign right to make such decisions. Bermudez also noted Colombia had not objected to BRV military deals with Russia and China. Eastman conceded the GOC had probably erred in keeping the DCA talks secret, then announcing them at a diplomatically sensitive time, and he acknowledged the lack of transparency let Chavez and others paint the

agreement as a GOC-USG conspiracy. Still, he argued, the GOC's "grown-up" response to the spat would help tamp down rising tensions while allowing the GOC to come off better internationally. In the same vein, Ministry of Defense (MOD) official Francisco Rodriguez acknowledged the GOC had known about the Swedish missiles for several months, but had waited to use it to the GOC's advantage in a "high tension moment like this."

¶4. (C) Still, GOC officials are worried. German Castaneda of the Colombian Ministry of Foreign Affairs (MFA) remarked on July 24 that Chavez's unpredictability made the situation more dangerous. He hastened to add that the possibility of an armed confrontation was remote, but that the FARC presence across the Venezuelan border--along with Chavez's announced intention to bolster the BRV's military presence at the border--increased the chance for costly mistakes. General Gustavo Matamoros, commander of the Colombian military's Joint Caribbean Command (which includes long stretches of border territory in the northeast), told us on July 16 that Colombian armed forces in the area are far superior to those of the BRV, but conceded that in the unlikely event of a conflict, the BRV could inflict physical and political damage in border areas before being defeated rapidly.

TRADE, ECONOMIC TIES AT GREATEST RISK

¶5. (C) Castaneda insisted the MFA--and most of the GOC--was far more concerned with the economic fallout from the bilateral dispute. He noted that Chavez threatened to "freeze" economic relations along with political ones, and argued that despite the irrationality of such a move, one

could not rule it out. Thus far, no specific measures have been put in place, but Venezuelan Embassy Commercial Counselor Eduardo Delgado told EconCouns that the BRV was seriously analyzing what steps they might wish to take.

¶6. (C) Trade Minister Luis Guillermo Plata told us that moving forward on Colombia's free trade agreements remained a top priority to reduce Colombian dependence on Venezuela and Ecuador, given the mercurial nature of the trade ties. He hoped that progress toward ratification of deals with Canada and the EU would continue, though political issues in Canada's minority government made it difficulty to see quick ratification, he said. Alfredo Ramos, director of economic integration at the Ministry of Trade, Industry, and Tourism, believes Chavez's actions could hurt Venezuelans as well as Colombians, making it likely the current row will blow over. He noted that Colombia and Venezuela are natural trade partners, and that neither can readily replace the other. Ramos highlighted Chavez's stated desire to import more from Brazil and Ecuador, noting that such a switch would be extremely difficult--and costly. Venezuela is Colombia's second-largest trading partner after the U.S., buying 16 percent of Colombia's exports in 2008 (reftel C). According to media reports, however, after two years of sustained growth, Venezuelan imports of Colombian goods in January-May 2009 dropped compared to the same period in 2008.

¶7. (SBU) The general reaction of Colombia's business community is of uncertainty, mixed with a strong hope for a swift political resolution that will prevent political tensions from spilling over to the commercial sphere. Rafael Mejia Lopez, president of the Colombian Agricultural Society (SAC), told us that while Colombian imports from Venezuela are relatively low, Venezuelan firms do provide some key inputs for Colombian industry. He also mentioned that Venezuela's attempts to substitute Brazilian imports are not going well because Brazilian firms do not want to deal with the temperamental Chavez. Still, some companies particularly sensitive to trade restrictions are implementing precautionary measures. The President of Occidental Petroleum Colombia said that activity on the border region where they operate (Arauca) is normal, but that since they

bring all materials for their refinery across the border, they were "activating their contingency plans."

SPECIFIC INDUSTRIES VULNERABLE

¶8. (SBU) The associations that have expressed the most concern over Venezuela's actions are those of the textile, vehicle, poultry, and meat sectors. Ivan Amaya, president of Colombia's National Association of Textile Producers, said Venezuela was Colombia's main export destination, and that it would be impossible for the industry to quickly find new markets. He mentioned that Colombian textile exports had fallen 35 percent between January-May 2009, and that Chavez's recent threats left the industry unable to forecast future export numbers with any accuracy.

¶9. (SBU) Similar statements were given by Tulio Zuloaga, president of Colombia's Automotive and Parts Association, and Jorge Bedoya, president of the National Aviculture Federation. Zuloaga emphasized that Venezuela had agreed to a quota of 10,000 vehicles for 2009, which had not been fulfilled. He estimated that vehicles and parts exports to Venezuela--which totaled USD 1.3 billion in 2008--might not reach USD 250 million in 2009. All contacts noted the need for Colombian industry to expand to markets less susceptible to political tensions.

NATIONALIZATION OF COLOMBIAN CAPITAL--IDLE THREAT?
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¶10. (SBU) Chavez's statements raising the possibility of nationalizing Colombian interests in Venezuela has also generated uncertainty. According to Liberal Party Senator Cecilia Lopez, a much greater bilateral conflict would arise if the BRV decided to go after one or more of the Colombian companies with capital in Venezuela. Local contacts note, however, that the BRV cannot implement such measures without first evaluating the cost to its own economy. Central Bank General Manager Jose Dario Uribe said that the most tangible effect so far has been a strong devaluation of the Colombian peso, which reached 1.58 percent in late July.

IMPORT SUBSTITUTION DIFFICULT BUT NOT IMPOSSIBLE
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¶11. (SBU) Javier Diaz, president of Colombia's National Association of Exporters, emphasized that while it is impossible for Colombia or Venezuela to eliminate all trade relations, Venezuela is already moving forward in reducing its dependence on Colombian products. Diaz said Venezuela has already succeeded in doing so with poultry and vehicle imports, which could be followed by textiles, leather, and footwear. While Venezuela was able to cut off bilateral ties for only three days in 2009, the continued outbreaks of crises may lead the BRV to increase its efforts to substitute the import of Colombian goods.

Nichols